

Office of the
Legislative Fiscal Analyst

FY 2005 Budget Recommendations

Joint Appropriations Subcommittee for
Commerce and Revenue

Department of Alcoholic Beverage Control

Contents:

- 1.0 Summary
- 2.0 Issues
- 3.0 Programs
- 4.0 Additional Information

1.0 Department of Alcoholic Beverage Control

Summary

Utah is one of eighteen liquor control states and one of two totally State run systems. The Department of Alcoholic Beverage Control (DABC) operates 35 State stores and approximately 77 package agencies. These State stores and package agencies are the exclusive retailers of liquor, wine and heavy beer (more than 4 percent alcohol by volume) in the State. The Department administers liquor laws and licenses on-premise businesses, manufacturers, wholesalers, warehouse, importers, and liquor representatives.

	Analyst FY 2005 Base	Analyst FY 2005 Changes	Analyst FY 2005 Total
Financing			
Trust and Agency Funds	18,465,200	448,400	18,913,600
Total	<u>\$18,465,200</u>	<u>\$448,400</u>	<u>\$18,913,600</u>
Programs			
Alcoholic Beverage Control	18,465,200	448,400	18,913,600
Total	<u>\$18,465,200</u>	<u>\$448,400</u>	<u>\$18,913,600</u>
FTE/Other			
Total FTE	310	2	312

Mission

The Department regulates the manufacture, sale and use of alcoholic beverages to serve Utah citizens and tourists. Without promoting the sale or consumption of alcoholic beverages, the Department operates as a public business using sound management principles and practices generating revenue for State and local government programs. The Department licenses and regulates the sale of alcoholic beverages at prices that reasonably satisfy the public demand while also protecting the public interest.

Income From Liquor Sales

Liquor sales provide a major source of income to the State's General Fund. In FY 2002, gross sales totaled \$156,629,891, with a net profit of \$33,260,284. This profit was deposited in the General Fund and used to support State government operations. The FY 2003 and FY 2004 liquor profit is estimated to continue this growing trend.

Liquor sales support several special government programs through profits and sales taxes. These include school lunch and local government alcohol and drug abuse programs.

2.0 Budget Highlights: Department of Alcoholic Beverage Control

2.1 Building Blocks

Excess liquor profits are transferred to the General Fund. Increases to the Department's budget should be treated like General Fund. However, the mission statement says that "the Department operates as a public business using sound management principles and practices generating revenue for State and local government programs."

2.2 Bond Payments

The Legislature authorized the Department's issuance of revenue bonds for warehouse expansion and liquor store construction. In the last session the Legislature funded the partial bonding cost due in FY 2004. For FY 2005 the remaining annual costs need to be funded. The Analyst recommends:

Liquor Control Fund.....\$341,800

2.3 2 FTE for New Store

The Tooele store is increasing from 2,286 to 10,000 square feet. They will increase sales and are requesting one addition full-time and two part-time FTE. The Analyst recommends:

Liquor Control Fund.....\$75,000

2.4 Package Agency Increase

Compensation for Package Agencies is based on prior year's sales. The Department determined that eight agencies need increases totaling \$31,600.

Liquor Control Fund.....\$31,600

3.1 Programs: Department of Alcoholic Beverage Control - Executive Director's Office

Recommendation The Analyst recommends base budget funding of \$1,207,800 from the Liquor Control Fund.

	2003 Actual	2004 Estimated*	2005 Analyst	Est/Analyst Difference
Financing				
Liquor Control Fund	938,400	1,188,700	1,207,800	19,100
Beginning Nonlapsing	800	21,300		(21,300)
Closing Nonlapsing	(21,300)			
Total	<u>\$917,900</u>	<u>\$1,210,000</u>	<u>\$1,207,800</u>	<u>(\$2,200)</u>
Expenditures				
Personal Services	899,400	1,060,300	1,056,600	(3,700)
In-State Travel	3,600	3,600	3,600	
Out of State Travel	1,900	1,900	1,900	
Current Expense	13,000	144,200	145,700	1,500
Total	<u>\$917,900</u>	<u>\$1,210,000</u>	<u>\$1,207,800</u>	<u>(\$2,200)</u>
FTE/Other				
Total FTE	16	18	18	0

*Non-state funds as estimated by agency

Summary

The Executive Director's Office sets Department policies and procedures. The Office provides information to the part-time Commission to decide where to locate liquor stores, product mark-up, and issuance of licenses and permits. Liquor license officers investigate compliance with Utah's liquor laws and make recommendations regarding license applications, suspensions, and revocations.

The Department of Public Safety also has liquor enforcement officers who police the private clubs and restaurants. They are funded through another Subcommittee.

3.2 Programs: Department of Alcoholic Beverage Control - Administration

Recommendation

The Analyst recommends a budget of \$888,400.

	2003 Actual	2004 Estimated*	2005 Analyst	Est/Analyst Difference
Financing				
Liquor Control Fund	889,900	889,700	888,400	(1,300)
Total	<u>\$889,900</u>	<u>\$889,700</u>	<u>\$888,400</u>	<u>(\$1,300)</u>
Expenditures				
Personal Services	424,800	426,100	424,800	(1,300)
In-State Travel	800	800	800	
Current Expense	464,000	462,500	462,500	
DP Current Expense	300	300	300	
Total	<u>\$889,900</u>	<u>\$889,700</u>	<u>\$888,400</u>	<u>(\$1,300)</u>
FTE/Other				
Total FTE	9	8	8	0

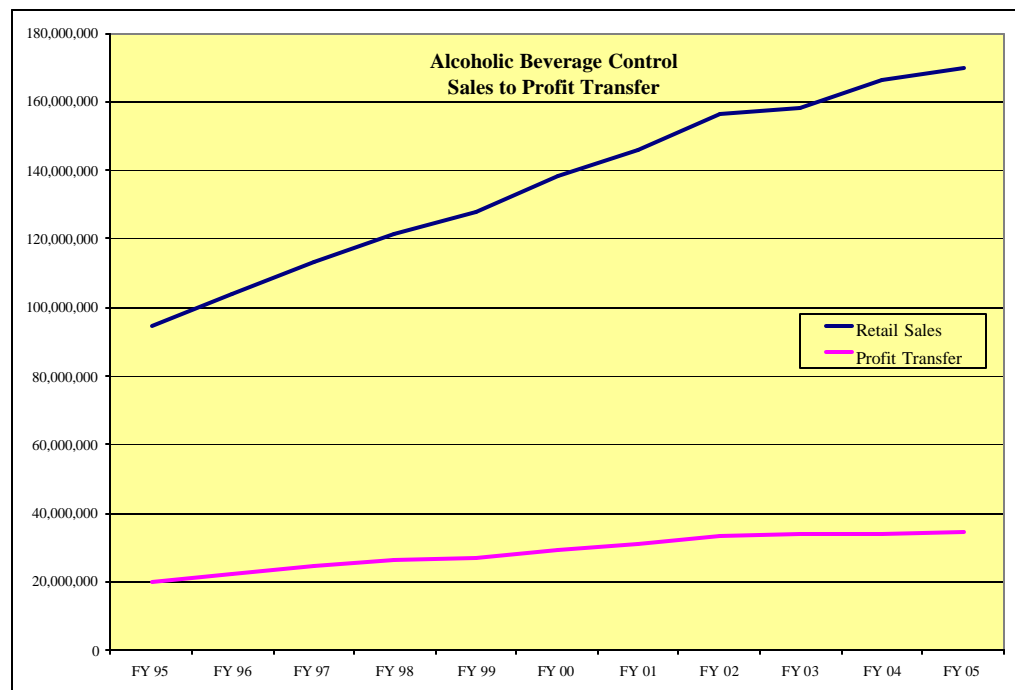
*Non-state funds as estimated by agency

Summary

Administration provides centralized administrative services to other programs within the Department. This includes budgeting, accounting, and auditing stores and package agencies.

Performance Measures

Shows a decline in profit transfer beginning in FY 03. Profit transfer is affected by new bond payments of (\$730,000), and new education and compliance employees (\$190,000).



3.3 Programs: Department of Alcoholic Beverage Control - Operations

The Analyst recommends \$1,964,500 from the Liquor Control Fund.

	2003 Actual	2004 Estimated*	2005 Analyst	Est/Analyst Difference
Financing				
Liquor Control Fund	1,908,900	1,968,800	1,964,500	(4,300)
Total	<u>\$1,908,900</u>	<u>\$1,968,800</u>	<u>\$1,964,500</u>	<u>(\$4,300)</u>
Expenditures				
Personal Services	1,194,800	1,216,200	1,211,900	(4,300)
In-State Travel	1,000	1,000	1,000	
Out of State Travel	4,200	4,200	4,200	
Current Expense	86,300	85,500	85,500	
DP Current Expense	438,800	561,900	561,900	
DP Capital Outlay	183,800	100,000	100,000	
Total	<u>\$1,908,900</u>	<u>\$1,968,800</u>	<u>\$1,964,500</u>	<u>(\$4,300)</u>
FTE/Other				
Total FTE	16	16	16	0

*Non-state funds as estimated by agency

Summary

Operations provides data processing to the Department and manages the operation of the warehouse, stores and package agencies. (The budgets for the warehouse, distribution system, stores and package agencies are considered separately.) All liquor from delivery to the warehouse, until it is sold to the consumer, is traceable by computer. This contributes to the low loss rate of less than 1/10th of one percent.

3.4 Programs: Department of Alcoholic Beverage - Warehouse and Distribution

Recommendation The Analyst recommends a budget of \$1,136,100 from the Liquor Control Fund.

	2003 Actual	2004 Estimated*	2005 Analyst	Est/Analyst Difference
Financing				
Liquor Control Fund	1,140,200	1,138,800	1,136,100	(2,700)
Total	<u>\$1,140,200</u>	<u>\$1,138,800</u>	<u>\$1,136,100</u>	<u>(\$2,700)</u>
Expenditures				
Personal Services	974,500	890,200	887,500	(2,700)
Current Expense	165,700	165,900	165,900	
Capital Outlay		82,700	82,700	
Total	<u>\$1,140,200</u>	<u>\$1,138,800</u>	<u>\$1,136,100</u>	<u>(\$2,700)</u>
FTE/Other				
Total FTE	21	22	22	0

*Non-state funds as estimated by agency

Summary This program includes the delivery and the warehousing of the liquor and wines. Distribution is under the control of the Operations Division. The Department now delivers over 98 percent of the merchandise. This contributes to the savings due to less product breakage and less employee theft.

Distribution Information The Department uses a combination of State employees and contractual services to deliver product to the various stores. A contractor delivers cases to the stores at a cost of approximately \$1.00 per case. The cost for the Department to make the same delivery is approximately \$.40 a case. However, if the destination is out-of-the-way and the order is small, it can push up expenses so high that it makes economic sense to use contractors.

3.5 Programs: Department of Alcoholic Beverage Control - Stores and Agencies

Recommendation

The Analyst recommends a base budget of \$13,716,800 from the Liquor Control Fund.

	2003 Actual	2004 Estimated*	2005 Analyst	Est/Analyst Difference
Financing				
Liquor Control Fund	11,819,200	13,308,600	13,716,800	408,200
Total	<u>\$11,819,200</u>	<u>\$13,308,600</u>	<u>\$13,716,800</u>	<u>\$408,200</u>
Expenditures				
Personal Services	7,374,400	7,920,300	7,970,200	49,900
In-State Travel	11,600	11,600	11,600	
Current Expense	4,411,500	5,369,800	5,728,100	358,300
DP Current Expense	6,900	6,900	6,900	
Capital Outlay	14,800			
Total	<u>\$11,819,200</u>	<u>\$13,308,600</u>	<u>\$13,716,800</u>	<u>\$408,200</u>
FTE/Other				
Total FTE	237.0	245.5	247.5	2.0

*Non-state funds as estimated by agency

Summary

The Operations Division oversees stores and package agencies. This program manages the operation of the retail outlets for the sale of liquor and wine to the consuming public. Liquor is sold through several channels in the State, among those are State stores, package agencies, private clubs, and restaurants.

Utah is a Liquor Control State

Utah is one of eighteen liquor control States and one of only two that have totally State run systems. (Pennsylvania is the other State.) Utah buys from the manufacturer, stores, distributes and sells the product and collects the sales and excise taxes in State-run stores. The number of retail establishments is set by rule, based on population. The distribution is:

<u>Establishment</u>	<u>Ratio</u>	<u>Active Licenses</u>
State Stores	1 : 48,000 people	36/36
Pkg Agencies	1 : 18,000 people	76/76
Restaurant	1 : 4,500 people	473/481
Private Clubs	1 : 7,000 people	299/309

State Stores

The State operates 35 stores throughout the State. These stores are located in large and medium-sized communities where the volume of business is high enough to support the costs of operating a store. The State owns 24 stores and leases the other 11. Employees working in the stores are State employees.

Building Block: Bond Payments

The Legislature authorized the Department's issuance of revenue bonds for warehouse expansion and liquor store construction. In the last session the Legislature funded the partial bonding cost due in FY 2004. For FY 2005 the remaining annual costs need to be funded. The Analyst recommends:

Liquor Control Fund\$341,800

**Building Block:
2 FTE for
Tooele Store**

The Tooele store is increasing from 2,286 to 10,000 square feet. They will increase sales and are requesting one addition full-time and two part-time FTE. The Analyst recommends:

Liquor Control Fund\$75,000

**Building Block:
Package Agency
Increase**

Compensation for Package Agencies is based on prior year's sales. The Department determined that eight agencies need increases totaling \$31,600.

Liquor Control Fund\$31,600

4.0 Tables: Department of Alcoholic Beverage Control

	2001 Actual	2002 Actual	2003 Actual	2004 Estimated*	2005 Analyst
Financing					
Trust and Agency Funds	15,299,400	16,294,800	16,696,600	18,494,600	18,913,600
Beginning Balance	3,200	23,100	800	21,300	
Closing Balance	(23,100)	(800)	(21,300)		
Total	\$15,279,500	\$16,317,100	\$16,676,100	\$18,515,900	\$18,913,600
Programs					
Alcoholic Beverage Control	15,279,500	16,317,100	16,676,100	18,515,900	18,913,600
Total	\$15,279,500	\$16,317,100	\$16,676,100	\$18,515,900	\$18,913,600
Expenditures					
Personal Services	9,958,000	10,530,000	10,867,900	11,513,100	11,551,000
In-State Travel	22,300	17,200	17,000	17,000	17,000
Out of State Travel	10,200	5,900	6,100	6,100	6,100
Current Expense	4,523,900	5,055,300	5,140,500	6,227,900	6,587,700
DP Current Expense	488,200	521,400	446,000	569,100	569,100
DP Capital Outlay	276,900	134,100	183,800	100,000	100,000
Capital Outlay		53,200	14,800	82,700	82,700
Total	\$15,279,500	\$16,317,100	\$16,676,100	\$18,515,900	\$18,913,600
FTE/Other					
Total FTE	311	299	299	310	312

*Non-state funds as estimated by agency.